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World Bank study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production

Daryll E. Ray

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Depreciation on listed property vehicles, continued from page 4

tract in effect before May 6, 2003. The 2003 legislation increased the first year depreciation allowance for new passenger automobiles by \$7650 to \$10,710.

The 2003 limits for passenger automobiles are as follows

	Zero Bonus	30% Bonus (new)	50% Bonus (new)
First year	3,060	7,660	10,710
Second year	4,900	4,900	4,900
Third year	2,950	2,950	2,950
Each succeeding year	1,775	1,775	1,775

The maximum allowable depreciation amounts for 2003 are:

Zero bonus	30% bonus	50% bonus (new)	50% bonus (new)
First year	9,080	22,880	32,030
Second year	14,600	14,600	14,600
Third year	8,750	8,750	8,750
Each succeeding year	5,225	5,225	5,225

The maximum allowable depreciation for 2003 is:

	Zero bonus	30% bonus (new)	50% bonus (new)
First year	3,360	7,960	11,010
Second year	5,400	5,400	5,400
Third year	3,250	3,250	3,250
Each succeeding year	1,975	1,975	1,975

Trucks and vans as non-personal use vehicles

Temporary regulations effective July 3, 2003, exclude from the definition of passenger automobiles any truck or van that is a "qualified nonpersonal use vehicle" as defined under I.R.C. • 274 which applies to vehicles not likely to be used more than a de minimis amount for personal purposes. These vehicles are subject to the limits for listed property but not the dollar limits for passenger automobiles.

Other trucks and vans

For other trucks and vans, placed in service in 2003, a higher inflation adjustment factor has been approved.

Electric automobiles

A 1998 amendment specifies that the maximum depreciation amounts that may be claimed for electric vehicles are tripled through 2004.

A deduction of \$2,000 is available for electric vehicles certified under the clean fuel provision of federal law.

World Bank study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production

by Daryll E. Ray, Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, Director of UT's Agricultural Policy Analysis Center. (865) 974-7407; dray@utk.edu

In the wake of the collapse of the World Trade Organization (WTO) talks in Cancun in mid-September a number of news reports have referred to a World Bank Report that estimates that "a deal to lower global trade barriers could add more than \$500 billion a year to global incomes by 2015, lifting 144 million people out of poverty." These results are based on a "pro-poor" scenario that is reported in 2003 *Global Economic Prospects: Realizing the Development Promise of the Doha Agenda*.

The World Bank's "pro-poor" scenario assumes that all developed nations reduce their agricultural tariffs to a maximum of 10 percent and tariffs on other goods to 5 percent while all

developing nations reduce agricultural tariffs to a maximum of 15 percent and other goods to 10 percent. In addition, payments to producers would be decoupled from production. "The 'decoupling' part of the scenario is achieved by removing all domestic support in agriculture input and output subsidies and payments to land and capital. These would be replaced by direct payments to farm households."

The prospect of a \$500 billion income gain, and the lifting of 144 million people out of poverty got me to wondering how this feat would be accomplished and what its impact would be on agricultural production in various countries of

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the world. Because one of the main issues at Cancun was the Agreement on Agriculture and the call for support reduction, I assumed that changes in agriculture would be a significant component of the pro-poor scenario. Indeed, \$358 billion of the gain comes from agriculture of which \$240 billion would accrue to low and middle income countries.

For a change of this magnitude to occur, significant adjustments would need to take place in the developed countries. The effect of this policy change would be felt differently in various countries and regions around the world. It appears that one of the areas that would experience the greatest change under this trade liberalization scenario is the European Union (EU).

Right now, the EU is just barely a net exporter of major field crops. Aggregating across corn, barley, wheat, soybean, rapeseed, sunflower seed, and rice, over the last five years the EU annually consumed an average of 140 million metric tons of these commodities. While she imports and exports various amounts of individual crops, in total, EU exports averaged about 4 million tons of major crops more than it imported.

The results of the study's "pro-poor" scenario show a decline in total European crop and livestock output of 30 percent below baseline projections for 2015. Break-outs of individual commodities were not published in the World Bank report but a study published by Iowa State University on a similar application of the World Bank's model does provide commodity detail.

Based on the more detailed information in the Iowa State study, we have estimated the crop-output implications from the World Bank's reported total drop in EU agricultural output of 30 percent for the pro-poor scenario. The results are staggering.

In the case of wheat, this estimation approach suggests that the "pro-poor" trade liberalization agenda would result in the loss of 26.4 (60

percent) million of Europe's 44 million wheat acres by 2015. This would transform Europe from a net wheat exporter to a significant importer.

In other grain production, Europe would lose 18.9 (70 percent) of its 27 million acres devoted to the production of other grains. With oilseeds the corresponding drop would be 6.2 million acres (59 percent) out of 10.5 million acres. In both of these cases Europe would be a significant net importer. The imports would come from lower cost producers elsewhere in the world.

According to our calculations, the World Bank study implies that the relatively self-sufficient EU would become dependent on imports for two-thirds of its grain and oilseeds. Europe would return to the same kind of ship-to-mouth existence that it experienced following WWII. It was this ship-to-mouth to existence that led to the establishment of the European Common Agricultural Policy (CAP) in 1962.

Can this be? Do we really think that the EU will reduce its total acreage of wheat, oilseeds, and other grains by 63 percent or 51.5 million acres in the next decade under this or any other trade liberalization scenario?

As one who has worked with economic simulation models for over thirty-five years, I can understand how the World Bank's model, that views the world "as one large field" to use ADM's words, would produce these results. As a policy analyst, however, I find it extremely hard to believe that the French and other Europeans would be content to sit idly by while EU's major field crop production drops by nearly two-thirds.

Again, I ask, can this be? Are we missing something here? Can the real-world adjustments that would be required to achieve a \$358 billion agriculturally based increase in global income from trade liberalization be reasonably expected to occur? Perhaps, but what a gigantic departure from previous adjustment-experience it would be.

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